

How to be Demand-Led: Lessons for Business Development Service Providers from
Information and Communication Services in the Philippines

by

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EXECUTIVE SUMMARY

In many developing countries, new information and communication technologies (ICTs) are beginning to open up a range of new possibilities for supporting business development efforts, including those geared to the needs of micro and small enterprises (MSEs). This paper examines the experience of the Philippines with the provision of basic and higher value adding ICT based business services to MSEs. The paper contrasts a private sector provider focused solely on telecommunications, Bayantel Public Calling Offices, with a non-profit BDS provider, the Laguna Small and Medium Enterprise Service Center, which includes telecommunications and administrative services as part of a broad portfolio of business development services offered to businesses. The study draws conclusions on issues relevant to BDS practitioners and donors:

- What can the business models studied teach us about good practice in the delivery of BDS in general?
- What should be the future service mix and the delivery mechanisms of ICT based business services to MSEs?

The study of the two business models offers the following lessons on how BDS providers can be more demand-led and market oriented:

- Define the business by customer benefit from the customer point of view.
- Determine an appropriate mix of services based on customer benefit and a specific client group.
- Fit the internal structure, capacity and operations to the defined business benefit.
- Use market research to determine service features.

The study suggests that business services can be placed along a continuum according to customer benefit with transaction facilitation at one end and enterprise skill development at the other. The customer benefit, in turn, suggests an appropriate mix of services, a client group and service provider internal systems and capacity needs.

Key findings of the study on the future of ICT based business services to MSEs are:

- MSEs will continue to demand basic telecommunications services through common service facilities. Finding the right mix of features is key to satisfying and building MSE demand for these services.
- Telecommunications services facilitate business transactions. However, high end ICT services are used more for business development and do not fit well with transactional services when combined into a single business service model.
- The private sector is generally successful in meeting the need for telecommunications services from MSEs. However, competitive pressures between providers may result in lower coverage in lower-income, less densely populated areas. Donors could experiment with lower cost business models which would be more viable in these areas.
- Internet-based information services fit well with other business development services because they help MSEs grow their businesses.
- Donors are needed to support experiments in the provision of market-oriented, Internet-based information services targeted toward MSEs.

These findings emerged from an assessment of the service mix and business strategies of both providers to serve MSEs with ICT services. These two types of business service providers are very different requiring different strategies, internal capacity and staff skills.

The Laguna Small and Medium Enterprise Service Center, created as a profit center in 1997 of the Laguna Chamber of Commerce, provides four types of services: training/seminars, financial assistance, marketing assistance and business support services which include basic communications and administrative services. The Center has only been trying to make a profit for a year and a half and is still learning to act in a business like fashion. A key lesson learned has been to increase the focus on training and marketing services while decreasing the focus on basic communications and administrative services. The study concluded that the Laguna Service Center should focus on services which help micro, small and medium enterprises grow and develop their businesses. The Laguna SeCen could better serve MSEs with new information services by becoming an “information broker” between MSEs, web-based information sources and specialized information providers.

Bayantel Public Calling Offices provide basic telecommunications and related services to MSEs and lower-income people through store front offices. The key strengths of the Bayantel model are that it is demand-led and professional, has wide outreach and an emphasis on profits and has rationalized its decision making process for opening new offices. The weaknesses of the model are a lack of outreach in remote areas and selected service features. The study found that the Bayantel Public Calling Offices should continue to focus on services which save micro and small enterprises time and money by facilitating day-to-day business transactions. PCOs could take advantage of modern ICTs by adding email and possibly e-commerce because these services are consistent with the benefits their customers seek.

CHAPTER ONE

INTRODUCTION

“Revolutions in communication have often been at the center of changes in society.”¹ In many developing countries, new information and communication technologies (ICTs) are beginning to open up a range of new possibilities for supporting business development efforts, including those geared to the needs of micro and small enterprises (MSEs). ICT developments are giving rise to new types and combinations of business services that appear to be both effective, from the customers’ point of view, and financially viable, from the suppliers’ perspective.

The way that telecommunications services are being provided to MSEs by the private and non-profit sectors can also offer lessons for the field of Business Development Services (BDS). While communications services are not traditionally included in the definition of BDS, micro and small entrepreneurs both want them and are willing to pay full cost for them.

This paper examines the experience of the Philippines with the provision of basic and higher value adding ICT based business services to MSEs. The paper contrasts a private sector provider focused solely on telecommunications, Bayantel Public Calling Offices (PCOs), with a non-profit BDS provider, the Laguna Small and Medium Enterprise Service Center (SeCen), which includes telecommunications and administrative services as part of a broad portfolio of business services. The study of these two models for the provision of communication and related services was complemented by an investigation of emerging models for the provision of information services with the assistance of the Internet. While the Internet models are not described in the paper, this research informed the conclusions reached. The study focused on two sets of issues:

- **What can the business models studied teach us about good practice in the delivery of BDS in general?** The study examined the two models from the perspective of effective business practices, financial viability and the principles of good practice laid down by the Donor Committee on Small Enterprise Development in their “Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions.” Part II analyzes the findings of the study with respect to lessons learned for the delivery of BDS.
- **What should be the future service mix and delivery mechanisms for the provision of ICT services to MSEs?** The study examined how telecommunications affects the business operations of MSEs, viable business models for delivering ICT services to MSEs and emerging Internet models in use by business support institutions. The recommendations of this investigation are found in Part III.

The institutional case studies – presented in Parts IV and V -- relied on site visits, interviews with management at various levels, interviews with other key persons, inspection of the competition and examination of the organizations’ records to the extent possible. The impact on MSEs and the extent to which the providers are meeting MSEs’ service demands was assessed using a customer survey modeled on marketing usage/attitude/image studies. One hundred MSEs from each of the case studies were surveyed.

¹ World Bank, World Development Report 1998, p. 56.

CHAPTER TWO

LESSONS FOR BUSINESS DEVELOPMENT SERVICE PROVIDERS

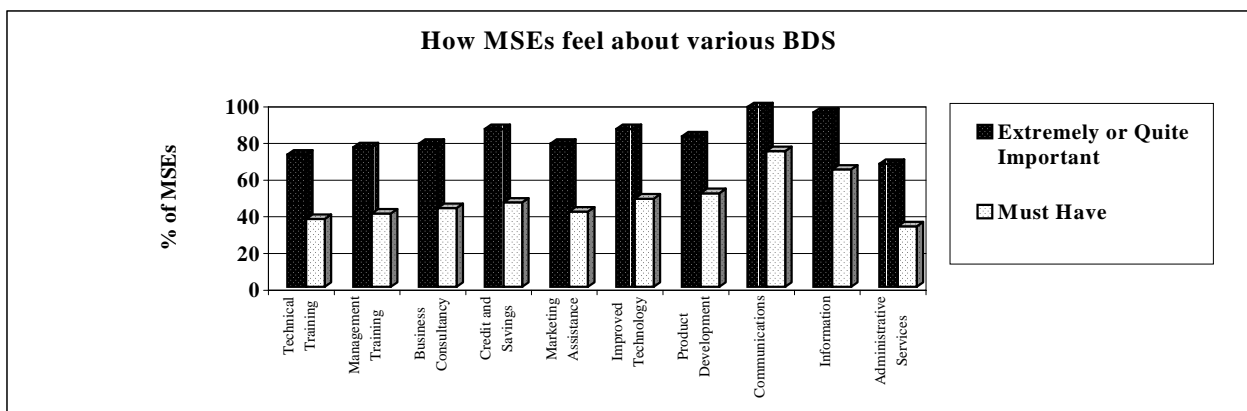
The two case studies shed some light on *how BDS providers can become more demand-led and market-oriented* as well as reinforce several of the other Donor Committee best practices principles.

- **Define the business by customer benefits from the customer point of view.**

Traditional ways of defining business development services emphasize what the provider is supplying rather than what the consumer is getting. The shift to demand-led BDS must start with an understanding of the benefits from services as seen by the consumer. Bayantel PCO services provide customers with a clear benefit: facilitating communication. Some of Bayantel's success in providing a basic service in a competitive market results from integrating those service features which maximize the benefits that customers want from the services.

The Importance of Transactional Services to MSEs

MSEs were asked to rate a range of business development services on their importance to their businesses. For each service that an MSE said was extremely or quite important, the MSE was asked if s/he must have this service, it was nice to have the service or s/he could do without the service. The results are shown in the chart below. MSEs in the survey overwhelmingly ranked communications services as the most important, followed by information services. While the survey may be biased because it dealt specifically with these services, the results show that these services are at least as important to MSEs which use them as more traditional business services. The survey also indicates that "transaction facilitation services," which help MSEs lower their costs for doing day-to-day business, are as important to them as business development services which help them grow their businesses over the medium- and long-term. Transactional services are particularly important for smaller MSEs who are focused on business survival rather than business growth.



- **Determine an appropriate mix of services based on customer benefit and a client group.**

The research indicates that MSE customers go to a business establishment for a set of services with similar benefits. In the case of the Bayantel PCOs, it is saving time and money on day-to-day business transactions. In the case of the Laguna SeCen, it is growing their businesses. It does not appear that MSE customers in the Philippines see an advantage in service providers which span a wide spectrum of benefits. Looking at the Philippine market for business services, providers in the private sector, such as Bayantel, are specializing in a single line of business at the retail level, rather than diversifying into many lines.

Figure 1: Defining Business Development Services by Customer Benefit (refer to Appendix 1) suggests that there is a spectrum of benefits customers seek to gain from BDS providers with transaction facilitation at one end and enterprise skill development at the other end. Customers who purchase services to communicate

better with buyers or suppliers, send or receive goods or services, or prepare documents are seeking ways to facilitate day-to-day business transactions. The figure then shows a logical set of services which correspond to each of these benefits. The types and combination of services change as customers seek to satisfy other benefits such as developing their businesses (e.g. expanding sales) or in improving internal operations (e.g. staff capacity building). While it may be possible to combine services in adjacent boxes, it is difficult for any one business service provider to combine services from different ends of the spectrum.

The future product and market mix of PCOs illustrate this point. PCOs face competition from competing providers who offer similar services (e.g. phone access in common facilities) and from substitute products that existing customers will turn to as prices fall (e.g. individual cellular phone subscriptions). PCOs face this choice: should they add new services which will appeal to a different type of client than their existing customers or should they add services that appeal to the type of customer they currently reach – low-income people who use common service facilities for day-to-day communication needs. The research concluded that it would be more difficult for PCOs to move into new service areas – such as customized information provision – that would enable them to reach a new type of customer and retain past customers who had graduated to owning communication equipment. Instead, the research found that Bayantel should diversify into email and e-commerce because these services, like their other services, facilitate day-to-day transactions. Although Bayantel has the technology, it would be difficult for PCOs to diversify into providing Internet access because it would require appealing to a different type of customer (e.g. larger and more complex) with different expectations (e.g. business development vs. operations). The Laguna SeCen, on the other hand, is dropping out of transaction facilitation services because their client group demands services from a common facility which help them develop their businesses, not save money on day-to-day operations. It pays to add another service if that service offers a similar benefit to existing services, requires minimal additional investment in equipment, skills, systems and capacity and contributes to economies of scale.

- **Fit the internal structure, capacity and operations to the defined business benefit.**

The research found that every aspect of the service provider business, from structure to systems and personnel skill must fit the defined business type in order for the business to operate successfully. For example, Bayantel's front line staff are not highly skilled which saves on costs. Bayantel's business relies more on quality technology. The Laguna SeCen, in contrast, must have skilled front-line staff to deliver quality services. The knowledge of the staff, rather than technology, is the key to service delivery. Bayantel has standardized systems for reaching high volume on low margin services while the SeCen must customize and rapidly adjust services for a select group of clients.

Chart 1: Summary Comparison of Two Business Models for BDS (see Appendix 2) shows just how different the PCO and the SeCen business models are when attempting to satisfy specific customer benefits.

Transaction facilitation services rely on broad outreach to both businesses and other customers in a defined geographical area. Transaction facilitation is a high volume, low margin business. On the other hand, business development services rely on a niche market of businesses which can be more geographically dispersed. Business development services tend to be low volume, high margin as compared to transaction facilitation. It is difficult for a single provider to satisfy effectively a broad range of customer benefits because the internal capacity needs are so different. Instead, successful service providers design their structure and systems around satisfying a defined customer benefit.

- **Use market research to determine service features.**

Being demand-led means more than identifying constraints to MSEs' businesses or asking MSEs which services they need. How services are provided matters as much as what services are provided. Bayantel has managed to gain market share from PT&T mainly because its service features, like office cleanliness and helpful staff, appeal to customers. The price and the services offered are almost identical. Business service providers need to go beyond traditional needs assessments and subsector analysis to market research which examines service features as closely as services.

CHAPTER THREE

THE FUTURE OF ICT SERVICES FOR MSEs IN THE PHILIPPINES

Over the past six years, the Philippine telecommunications industry has undergone a dramatic transformation from a virtual monopoly to a competitive and rapidly growing subsector. Industry investments are at an all-time high, with the total expected to reach more than P125 billion (US\$3 billion) this year. The number of companies in the telecommunications industry has increased dramatically over the last ten years making most segments of the industry very competitive. The Philippine government is expected to further deregulate the industry and has enacted the “Service Area Scheme” to ensure the growth of service to under-served, and less profitable, areas.

From 1992-97, teledensity (telephone lines per 100 people) expanded from 1.17 to 8.07, as compared to current figures of 7 in Thailand, 43 in South Korea and 64 in the U.S.² In 1997, the number of wireline telephone lines installed reached 5.77 million and served 37% of the country. There were an additional 1.3 million cellular phone subscribers throughout the country. The industry is expected to continue growing rapidly over the next few years. Teledensity in 2000 is forecast to reach 11.06 and the number of cellular subscribers is expected to reach 2.8 million.

Currently a wide range of telecommunications and related services are provided to the public. This study focused on those services delivered through mechanisms most likely to reach MSEs. (See Chart 2) The basic services which the study focuses on – telephone, fax and basic administrative services – are not new. The private sector has been providing them for many years. The higher end services the study examined such as email and Internet access are new due to advances in technology. Several private, government supported and non-profit providers have started an array of attempts to provide these services.

Chart 2: ICT Services (as defined in the study)

Basic Telecommunications	Supporting Services	High End Telecommunications	Information Services
telephone fax message service	telegrams money transfer photocopying typing/word processing	email data transfer Internet access	business information from the Internet and computerized data bases

The study of the two business models clearly shows both a need and a demand from MSEs for basic telecommunications services. The felt need for information services is also apparent, mainly among the higher end MSEs. A possible reason for the difference is that smaller MSEs are focused mainly on day-to-day operations and decisions – for which telecommunications services are ideal. Larger MSEs have started to think more about business development, for which information services are needed to find new suppliers, markets and technology.

A. TELECOMMUNICATIONS SERVICES

Despite the increasing availability of landlines, it is unlikely that the demand for telecommunications services from common facilities, such as phone shops and PCOs, is going to disappear. Some MSEs, especially micros, will continue to have low enough frequency of use that payphones or PCOs are more economical than owning a landline. As the Philippines and other countries continue to integrate their economies internally and with the world economy, the need for MSEs to communicate with buyers and suppliers beyond easy face-to-face contact will increase.

Lower end administrative services, such as money transfer and photocopying, can either be offered on their own or bundled with basic telecommunications facilities in the same offices. However, it will be difficult to

² World Bank, World Development Report 1998, p. 226-227.

bundle higher end telecommunications services and information services with basic services because they focus on different clients and need different business structures and capacity.

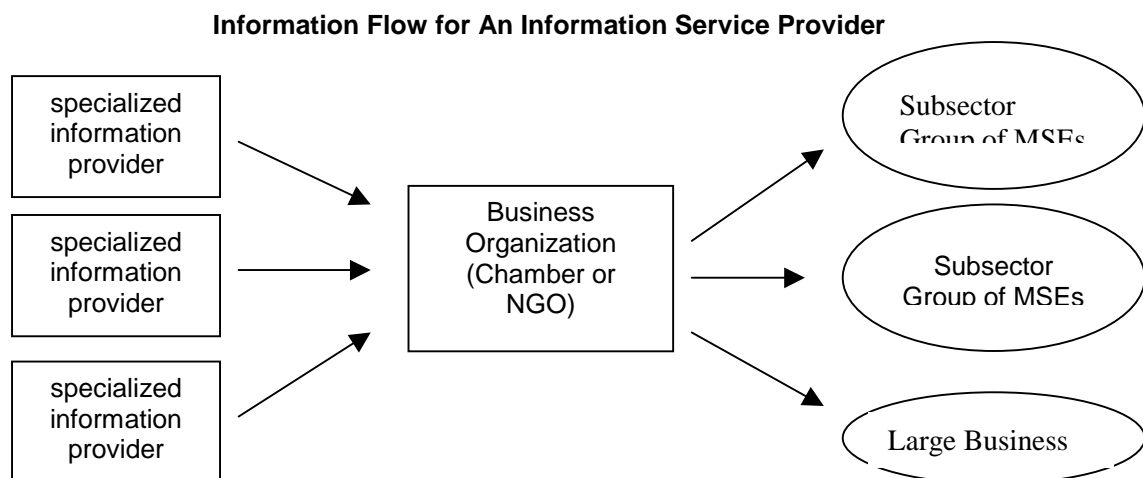
In the Philippines, the private sector is doing a good job of supplying basic telecommunications services to MSEs and the wider population. However, there remains the danger for more remote, lower-income and lower population density areas to be left out. Government should consider measures to ensure that PCOs and payphones continue to open in remote areas. Donors could contribute by experimenting with lower cost business models that could be viable in lower-income, lower population density areas.

B. INFORMATION SERVICES

Information services can be offered together with other business development services because they offer a common customer benefit: they help MSEs grow their businesses. If information services are to be provided to MSEs in an appropriate way, there must be a focus on providing useful and timely information which customers demand. The MSE survey showed that MSEs are not interested solely in access to hardware – they want the actual information content. In order to provide content, an information provider must have sufficient personnel of reasonable skill to locate needed information and package it in a user friendly manner. Providing MSEs with information would be most successful on a sectoral basis rather than a geographical basis.

There is a need for donors to support experiments in market-oriented, Internet-based information services targeted toward MSEs. It is unlikely that the private sector will initiate this type of experiment in the short run because the demand for information services from large businesses is growing rapidly and is easier to meet. Useful experiments would focus on assessing the impact on MSE operations and growth, determining how to increase demand for services, and determining how to make services financially viable.

Because demand from MSEs is still low, financial viability would require an information service provider to serve both MSEs and larger businesses. In order to make services cost low enough for MSEs, the provider could target subsectors of MSEs and provide information to groups through industry associations, in addition to serving individual businesses. The service provider would need skilled personnel familiar with business and with MSEs in particular. A business focused organization such as a chamber of commerce and industry or a business focused NGO might make the best service provider. This organization could either source information directly from the Internet or could work through other, more specialized, information providers such as those focused on agribusiness, national product statistics or export opportunities. An initial market survey would help determine both the content focus and the service features which MSEs demand. The services would also need to include an outreach effort to increase MSEs' awareness of the value of information and a feedback mechanism. A possible flow chart is provided below:



CHAPTER FOUR

LAGUNA SMALL AND MEDIUM ENTERPRISE SERVICE CENTER

The Laguna SME Service Center is a Business Development Service provider in transition and change. Its origins date back to the set-up of the Laguna Chamber of Commerce and Industry (LCCI) in 1975. The LCCI is a private association of big, small and medium enterprises in Laguna province. It has similar counterparts in other provinces, which coordinate through a national body, the Philippine Chamber of Commerce and Industries.

LCCI is a "voluntary partnership of businessmen and professional people working together to build a healthy economy and ultimately improve the quality of life in the different communities of the province of Laguna, thus making them better places to live and work in." The Laguna chamber's objectives are to:

- Serve as a vehicle for exchange of information which are mutually useful and beneficial to business operations of member-individuals and companies;
- Represent members with the local and provincial governments for solutions to problems needing government help or intervention; and,
- Provide business support services to members.

In addition to individual members, there are sectoral member associations representing various subsectors including footwear, garments, and food processing. As of February 1998, the LCCI had 106 regular members, 70 direct members, and 7 sectoral members. Approximately 85% of total membership is comprised of SMEs, notably in the embroidery, woodcraft, food processing, footwear manufacturing, and metalcraft industries.

The LCCI established the Laguna SME Service Center (SeCen) in July, 1997 as the culmination of strategic shifts, beginning in 1993, which increased the focus on SMEs and on business development services. The LCCI established the SeCen as the primary service delivery arm to cottage, small and medium enterprises. A major impetus for the separation was to test out whether a service center for Small and Medium Enterprises can become a self-sustaining proposition. Consequently, the LCCI decided to treat the SeCen as a profit center. SwissContact, a Swiss NGO, supports the SeCen through the provision of financial support, technical advice and human resource development.

A. SERVICES

The SeCen provides four types of services:

- **Training/Seminars** - management and technical training programs and consultancy both for small and large companies;
- **Business Support Services** - registration and licensing of business establishments; bookkeeping/accounting services and office/secretarial services (typing, clerical jobs, telephone, fax and photocopying);
- **Financial Assistance** - re-lending, credit facilitation and financial advice for small and medium enterprises; and,
- **Marketing Assistance** - trade fairs (both local and international), display exhibits, subcontracting/business matching, and marketing consultancy.

B. COMPETITION

The Laguna SeCen faces a different competitive environment for each service it offers:

Service	Competition
Training	Department of Trade and Industry, NGOs, University of the Philippines
Business Support Services	many formal and informal private sector companies in telecommunications, specialized business service centers
Financial Assistance	NGOs, informal money lenders
Marketing Assistance	Department of Trade and Industry, a few NGOs

Most business sectors in Laguna have been affected by the Asian economic crisis. The market for products has shrunk because of consumers' reduced buying capacity. The financial difficulties experienced by the sectoral association members have in turn decreased the demand for the SeCen services. For instance, the demand for training seminars has declined and re-lending services have been temporarily stopped due to delayed payments. However, business name registrations and market linkages remain in demand.

C. STRATEGY

The service center is focusing increasingly on marketing assistance and training. While there were initial plans to provide communication services (telephone, fax, e-mail, Internet access, photocopying) at a more significant scale and on a commercially viable basis, these services have since been relegated to the background as a range of supportive and incidental services. The key reasons for the shift follow.

LCCI Membership and Clientele: The LCCI membership consists primarily of cottage, small and medium enterprises with very few or no microenterprises. Most of the members already have their own telephones and fax machines. Findings of several needs assessments indicated that members consider training, market assistance, and access to technology as being more important than other services.

Revenue Generation Potential: The SeCen has found that a trade fair can generate sales revenues amounting to several million pesos which is far more than can be generated from the provision of telephone, fax, and related services in a similar time frame. Provision of communication services is a high volume, low margin activity. This contrasts with what is perceived to be higher margin activities such as the conduct of training and commissions and fees from trade fairs and market linkage activities. The SeCen manager believes that the Center should focus its efforts on higher value-adding services and leave the provision of basic communication and administrative services to private entities and individuals who can operate more cost efficiently because of lower overhead costs.

D. CLIENTS

While the Laguna SeCen offers services to big and small enterprises, both for members and non-members, priority is given to its target clientele: cottage, small and medium enterprises in Laguna and nearby towns. In 1998, sectoral association members, which make up the bulk of the LCCI SME members, consisted of seven sectors: novelty items, footwear, the metal sector, cut flowers, the processed food sector, garments, and the commerce/industry sector in the municipality of San Pedro. Members are spread out in all municipalities in the province.

E. FINANCIAL INFORMATION

The SwissContact approach for assisting SME Service Centers to become financially and operationally sustainable consists of three main components: technical advice, human resource development, and financial support. In the case of the Laguna SeCen, SwissContact provided three types of time-bound financial support. The first is a one time subsidy that covered 50% of the Center's estimated incremental investments for office improvement, additional office equipment (phone, fax and printer) and furniture. The second consists of an incentive that is tied to the net revenues that the Service Center actually generates from the

provision of services. This is equivalent to 100% of actual net revenues generated on selected activities or a ceiling amount, whichever is lower. Finally, SwissContact also provides a subsidy to cover part of the SeCen's operational costs. This subsidy is to be gradually phased out over a period of three years. (See Chart 3).

Chart 3: Laguna Service Center Budget and Level of SwissContact Support

	Aug - Dec 1997		1998	
Estimated Investment in Equipment	P 101,000	US\$ 2,525	0	
SwissContact Support	P 50,500	US\$ 1,375		
Support / Investment	50%			
Estimated Net Revenues	P 220,000	US\$ 5,500	P 441,000	US\$ 11,025
Estimated Personnel and Other Operating Costs	P 274,070	US\$ 6,852	P 599,000	US\$ 14,975
Net Surplus/(Loss)	P (54,070)	US\$ (1,352)	P (158,000)	US\$ (3,950)
SwissContact Revenue-Based Incentive	P 136,000	US\$ 3,400	P 180,000	US\$ 4,500
INCENTIVE / Net Revenue	62%		41%	
SwissContact Operating Cost Subsidy	P 130,000	US\$ 3,250	P 315,000	US\$ 7,875
Subsidy / Operating Costs	47%		53%	

Source: SwissContact

The projected revenues by activity type for 1998 indicate that the SeCen expected to generate most of its net revenues from marketing assistance activities for SMEs and from training seminars. (See Chart 4). While the SeCen expects to generate considerable net revenues from business registration services (included in Business Support Services), it does not expect much revenue from communications and administrative services. This is consistent with the Center's belief that it is SMEs' ability to sell their products profitably which fuels demand for services.

Chart 4: Laguna SeCen Revenue Projections for 1998 by Type of Activity

	Gross	Costs	Net		% of Total Net Revenue
			Pesos	US Dollars	
Sales and Display	P 12,000		P 12,000	US\$ 300	3%
Trade Fairs and Exhibitions	P 1,500,000	P 1,350,000	P 150,000	US\$ 3,750	32%
Marketing Linkage/Subcontracting	P 500,000	P 450,000	P 50,000	US\$ 1,250	11%
Training/Seminars/Consultancy	P 1,070,000	P 977,000	P 93,000	US\$ 2,325	20%
Financial Services	P 25,000		P 25,000	US\$ 625	5%
Business Support Services	P 248,000	P 111,000	P 137,000	US\$ 3,425	29%
Subtotal	P 3,355,000	P 2,888,000	P 467,000	US\$ 11,675	100%
Personnel		P 431,000			
Operating Costs		P 148,000			
Total	P 3,355,000	P 3,467,000	P (112,000)	US\$ (2,800)	

Source: SwissContact, Laguna SeCen

Financial data to date shows that the SeCen will not reach its revenue targets this year due to a decline in the demand for services as a result of the Asian financial crisis.

F. OPERATIONAL INFORMATION

- **Structure:** The LCCI is a membership based organization headed by an elected board of 11 directors. Officers and directors of the chamber are business and industry leaders recognized by both government and private officials. The SeCen is under the LCCI board.
- **Human Resources:** Staffing for the SeCen is kept lean: a Center Manager, a marketing officer, one support staff and a utility person. SwissContact currently supports all staff training.
- **Budgeting:** Projected income statements are generated annually in consultation with SwissContact and other donors.
- **Product Development:** The LCCI's approach to deciding on the range of services for SMEs has so far been informal and opportunistic. Ideas and projects can come from various sources: members, other Chambers, donors and opportunities for collaboration with other organizations. Indications of demand are gathered through interaction with LCCI members during various meetings and forums that the Chamber or the SeCen conduct. One major source of input was a Province-wide Small and Medium Enterprise Conference conducted in August 1998. Demand is assessed through test marketing. Services are offered, then actual demand for such services is reviewed and future plans are revised accordingly. This approach is possible because most of the services offered by the SeCen do not require significant up-front preparation or investment.

G. SWOT ANALYSIS OF THE BUSINESS MODEL

The Laguna SeCen is still in transition. Because it was established as a profit center less than two years ago, management is still learning how to act like a business. Nevertheless, the organization has made progress toward good business practices.

Strengths

- **Use of Financial Analysis in Decision Making:** Although the SeCen is not financially sustainable yet, regular financial statements are produced and the management uses these in decision making. This analysis is informing changes in service mix and pricing.
- **Close Relationship with Customers:** Because the SeCen is under a membership based structure, management gets frequent feedback and suggestions from customers. This frequent contact helps the SeCen adjust its service mix and features.

Weaknesses

- **Market Assessment:** The SeCen's system for adding services is still ad hoc and based as much on donor demands as consumer demand. Market assessment is mainly informal and not sufficiently systematic.
- **Lack of Focus:** The SeCen service mix is very broad. The services are not defined by a single, clear and demonstrable customer benefit. The SeCen is starting to address this weakness by focusing on a narrower set of services.

Opportunities

- **Information Services:** Interviews with the heads of different sectoral association members of LCCI indicate a demand for information. LCCI has an excellent network and existing technology through which it could generate specific information needed by sectoral associations. This service would fit well with the other services on which the SeCen is focusing because it caters to growth oriented businesses' demand for assistance in diversifying products and markets.

Threats

- **Subsidized Services from Other Providers:** The SeCen's training services compete with subsidized training courses from government and other NGOs. The distorted market makes it difficult for the SeCen to charge prices which will lead to financial sustainability.

CHAPTER FIVE BAYANTEL PUBLIC CALLING OFFICES

Bayantel is a diversified telecommunications company providing a full range of voice and data services including storefront services offered through approximately 150 branch and 250 franchised Public Calling Offices nationwide. Bayantel PCOs began with a company called Radio Communications of the Philippines, Inc. (RCPI) offering telegram services throughout the Philippines in the 1960s. Some offices added basic calling services in the 1970s. In 1993, Bayantel bought RCPI and added a range of telecommunications services to the RCPI telegram offices. Standard services offered in almost all Bayantel PCOs are domestic and international long distance telephone, domestic and international long distance fax, faxed message service and telegrams. Owned offices also provide money transfer services. Some offices provide data telegrams and will accept incoming faxes or phone calls.

A. COMPETITION

Bayantel's main competition in the PCO business is Philippine Telephone and Telegraph (PT&T), which also offers a national network of store front services. Bayantel also competes with Philippine Long Distance Telephone (PLDT) in many locations as well as other private companies.

Bayantel PCOs also face competition from substitute products: principally landlines, payphones and cellular phones. The government's ambitious program to increase vastly the number of landlines throughout the country is decreasing the market size for PCOs. Local exchange carriers are quickly putting up payphones to increase usage of their recently installed lines. These payphones, most of which now use cards rather than change for both local and long distance calling, may represent the most serious threat to PCOs in the long term.

Chart 5: Bayantel PCO Competitors and Substitutes

Competitors	Substitutes	Potential Entrants
<ul style="list-style-type: none"> ▪ PT&T ▪ PLDT ▪ PiITel ▪ other Local Exchange Carriers ▪ wireless PCOs 	<ul style="list-style-type: none"> ▪ landlines ▪ cellular phones ▪ payphones ▪ business centers ▪ banks 	<ul style="list-style-type: none"> ▪ payphone centered businesses

Source: Interviews with PCOs and competitors

Bayantel has made steady strides against their PCO competition. Although the company declined to give specific numbers, they claim to have overtaken PT&T in market share. Offices appear to be making headway in competing against the PCOs of local exchange carriers, although PiITel continues to have the edge in Southern Mindanao (the site of the field research).

While the PCOs are not a fast growing business as compared to cellular phone service, for example, they offer Bayantel national exposure through a nationwide network of offices and relative stability. Bayantel managers say that demand and revenues were growing steadily until this year when the economy was severely affected by the regional economic crisis.

However, in the last few years Bayantel has cut the number of PCOs, both owned and franchised, by more than half, closing most of those that were not profitable. Competitors are similarly closing offices. The closings seem to be mainly a result of the competition from substitute products but may also reflect a decreasing willingness to serve unprofitable areas in an increasingly competitive industry. The competition from substitute products is also driving an effort to develop new products for PCOs.

B. STRATEGY

Bayantel's key strategy for their PCOs is to emphasize quality. Prices for long distance service, which account for the vast majority of PCOs' earnings, are regulated by the National Telecommunications Commission allowing for very little difference in price among competitors. Therefore, no company can achieve a significant price advantage. Bayantel's push for quality focuses on two fronts: a "minimum one look," which has resulted in the upgrading of most Bayantel owned branches, and technology which ensures the clearest possible connection from a given location.

Bayantel's "minimum one look" makes offices considerably more attractive than the competition, including a comfortable waiting area and air-conditioning. Despite the standard minimum look, Bayantel maintains considerable variation among branches and franchises to cater to local preferences. Urban offices are fancier and rural offices plainer. Bayantel is relying on new services and variance in service features to enable them to remain competitive in changing local circumstances. While the service mix is standardized, how services are offered varies. For example, while many offices continue to provide long distance calling through operator assisted service only, others have added collect calling and direct dialing service. Local managers retain the responsibility to gauge their areas and recommend changes as appropriate.

Bayantel's marketing is mainly on a per service basis because their consumer research shows that each service has its unique market with distinct service features. For example, a reliable, honest reputation is key for money transfer services, while a clear connection is very important for long distance telephone service.

C. CLIENTS

Bayantel PCOs serve broad, area based markets. Their customers are mainly C, D and E level, defined in the Philippines by a variety of socio-economic factors including a monthly household income of P25,000 (US\$625) or less. MSEs make up 10-30% of a PCO's client base. The MSEs are often regular clients as opposed to the bulk of "walk in" customers.

Chart 6: Profile of PCO MSE Customers

Sector	75% formal	25% informal	
Type	86% trading	12% services	1% manufacturing
Age of business	27% two or less years	19% three to five years	54% more than five years
Ownership	32% male	22% female	46% family/joint
Monthly sales*	29% P3,000 or less (US\$75)	26% P3,001-10,000 (US\$75-250)	28% more than P10,000 (US\$250)
No. of employees	90% ten or less	10% eleven to twenty five	
Location of business partners	59% have customers in a different province	68% have suppliers in a different province	
ICT ownership	52% own a telephone	8% own a fax machine	17% own a computer
Education of owner	22% high school or less	31% some college	47% college graduate
Monthly family income*	9% P10,000 or less (US\$250)	27% P10,001-25,000 (US\$250-625)	50% more than P25,000 (US\$625)

* Remainder did not know or refused to answer.

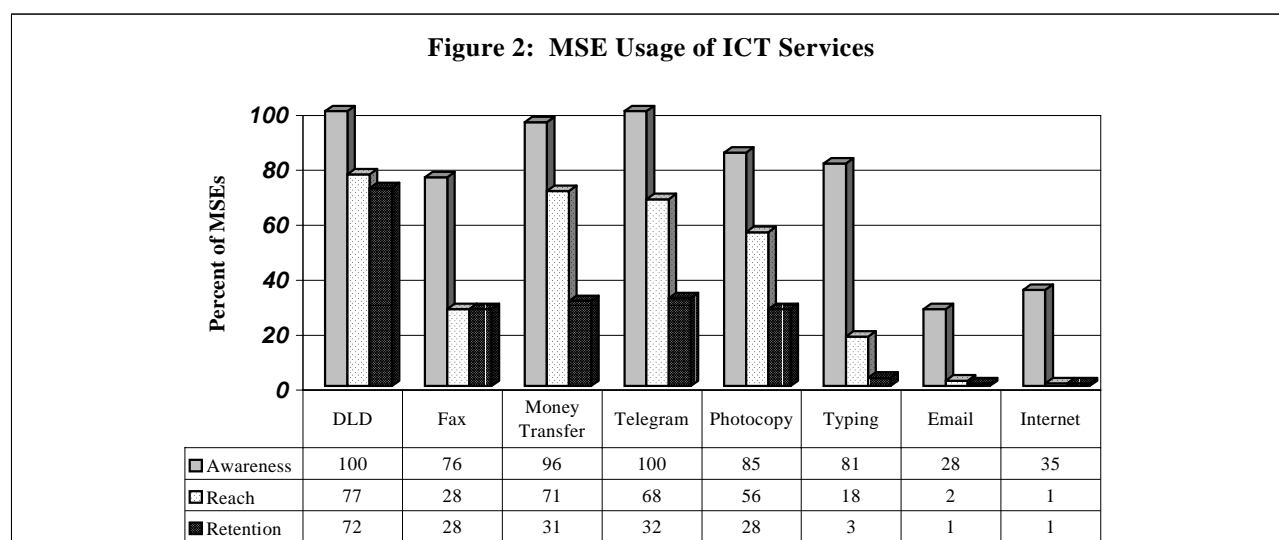
Source: MSE survey

A profile of MSE PCO customers shows that they are better off than average MSEs in the Philippines. (See Chart 6) Using the government defined poverty threshold, only approximately 3% of MSE customers surveyed fell below the poverty line as compared to a national poverty incidence in 1994 of 35.5%.³ It is likely that the many MSEs who operate only in the local economy, with local buyers and suppliers and almost exclusively face to face business dealings, are not using basic telecommunications services for business purposes. The survey's telecommunications customers represent a more growth oriented group who are expanding their customer and supplier base beyond their local area.

D. CUSTOMER BEHAVIOR AND SATISFACTION

Figure 2 shows the awareness, reach and retention for telecommunications and related administrative services from the survey of MSE PCO customers. Awareness is defined as being able to describe correctly a service. Reach is the number of MSEs who have ever tried the particular service. Retention is the number of MSEs that have used the service in the last month; it is used here as a proxy for the regular use of the service.

The chart shows that each service has its own marketing challenges. For example, while 79% of the people who know about domestic long distance calling have tried it, only 37% of those who are aware of fax service have tried it. It has clearly been difficult to induce MSEs to try fax service. However, those that try fax service find it useful and continue to use it. In contrast, both telegrams and money transfer enjoy reasonably high reach but low retention. It is likely that this is due to MSEs turning to substitute products: use of checking instead of money transfer and phone or fax instead of telegrams. Both awareness and trial of email and Internet among MSEs is very low.



For services that MSEs were aware of but did not use, almost all stated that it was because those services were not needed in their businesses. Very few stated that it was because they could not afford the service or because the service was inaccessible or inconveniently located. This result shows that increasing the demand does not always require lowering the price or making services more accessible but rather showing MSEs the benefits of services. The results of the survey also indicate that service providers for ICT and supporting services are somewhat specialized, rather than spanning the whole range of telecommunications and related business services.

³ Philippine National Statistics Office Web page.

MSEs spend on average, P78 (US\$1.95) per visit on domestic long distance calling. Assuming the average MSE use of three calls per month, this amounts to 8% of the most frequently reported monthly sales. Overall, MSEs are spending a small but significant part of their resources for their use of telecommunications services.

Generally MSEs are satisfied with Bayantel PCOs; most provider characteristics received good satisfaction ratings. The survey asked MSEs to rank 14 provider characteristics on importance and satisfaction with Bayantel's service. The results are shown in Figure 3. The numbers in parenthesis indicate the rank of the feature. The first number ranks importance, the second satisfaction.

The results show that Bayantel's strategy is meeting customer demand. A focus on quality of connection and a clean office with a comfortable waiting area matches MSEs' areas of importance. The relatively low importance rating of variety of services shows that MSEs are not looking for a "one stop shop" to meet all their business service needs but look to Bayantel PCOs for specialized telecommunications services. Interestingly, the price of services, convenience of location and distance from MSEs' businesses received only average or low importance ratings, showing that MSEs are willing to go out of their way to use telecommunications services. Bayantel received relatively low satisfaction ratings on many characteristics that received low importance ratings, showing that they do not waste money on unimportant service features.

Figure 3: Importance of Characteristics and Satisfaction with Bayantel PCO Services

	High Satisfaction	Low Satisfaction
	<u>STRENGTHS</u>	<u>WEAKNESSES</u>
High Importance	cleanliness (3,1) clarity of connection (4,3) comfortable waiting area (5,2) friendly/helpful attendants (6,6)	accuracy (1,5) privacy (2,12) confidentiality (7,13) comfort while using service (9,11)
	<u>WASTE</u>	<u>INDIFFERENCE</u>
Low Importance	variety of services (13,4)	price of services (8,14) clear layout (10,9) waiting time (12,10) convenience of location (11,7) distance from business (14,8)

Source: MSE Survey

The survey indicates that telecommunications services help MSEs to be more competitive by reaching their suppliers and buyers faster and saving time and money. MSEs use PCOs principally to exchange information on market prices and product availability with suppliers and buyers. PCOs are clearly a very valuable service to MSEs. (See Chart 7) Of those surveyed, 74% said that access to the telecommunications services they use has definitely increased their profits. While telecommunications is important to MSEs daily operations, they appear to use it less for business development, such as looking for new buyers.

Chart 7:

Has access to the telecom services you use increased your business profits?

Definitely	74%
Probably	17%
Maybe	9%
No	0%

Source: MSE Survey

E. FINANCIAL INFORMATION

- **Pricing Decisions:** Bayantel determines prices for services mainly according to government regulation and then by what the market will bear and what competitors are charging. However, prices cover all expenses and offer Bayantel a reasonable profit margin.

- **Subsidies:** Bayantel is a private company and does not receive any subsidies. Operational costs, product development, market research and costs for opening new branches and franchises are all borne by the company.
- **Profits:** Bayantel declined to provide specific financial data on the PCOs. However, the store front unit, as a whole, is profitable and most of the PCOs are profitable.
- **Revenues:** The two key determinants of revenue are number of customers and amount spent per customer. Monthly revenues among PCOs can vary from P30,000 for a small rural office with approximately 20 customers per day to P300,000 for an urban office with 100 customers per day. Domestic long distance calling and fax make up the bulk of revenues for all PCOs.
- **Expenses:** The two biggest on-going expenses for PCOs are personnel and office rent. Other key expenses include janitorial services, utilities and supplies.
- **Start-Up Costs:** Start up costs for PCOs vary between approximately P45,000 for small franchises to P375,000 for large owned branches, excluding the cost of installing the lines.

Chart 8: Estimated PCOs Recurring Monthly Expenses (Pesos)

Line Item	Low	High
Personnel	13,500	35,000
Rent	2,500	15,000
Utilities	2,500	18,500
Janitorial Services	1,500	8,000
Supplies	2,000	20,000
Maintenance	200	2,000
Depreciation*	485	4,900
Total	22,685	103,400

* Straight line over 5 years. (P40 = US\$1)

Source: PCO managers and estimates

F. OPERATIONAL INFORMATION

Bayantel depends on a structure and systems which enable the organization to reach a high volume of customers at a reasonably low cost. The key systems are as follows:

- **Structure:** Bayantel's structure is a typical corporate hierarchy. However, there is considerable flexibility at the level of PCO managers to recommend changes in strategy such as hours the PCO is open, variance in services and equipment upgrading.
- **Management:** There are three levels of managers: local for each PCO, regional and central, based in Manila. PCO policy is made at the national level. Support services provided by the national office to the regions and PCOs include product management and development, market research, national level marketing and human resource development.
- **Budgeting:** Revenue growth projections are based on historical trends in customer traffic, competition, economic trends and changes in infrastructure of the area.
- **Feasibility Studies:** Before either a new franchise or a new company owned office is approved, Bayantel undertakes a market feasibility study focused on potential revenues and expenses. Revenues are estimated based mainly on projected traffic for the location.
- **Franchising:** More than 60% of Bayantel PCOs are franchised. Franchising has allowed Bayantel to grow more quickly than through only company owned offices. Bayantel provides franchises with the installation of lines, technical assistance and national marketing.
- **Human Resource Management:** Bayantel implements a company wide incentive strategy for all regular employees. Incentives are based on meeting targets agreed upon during the annual planning.
- **Product Development:** Bayantel is currently market testing a range of new products from retail sales to email/Internet access. The aim of product development is both to persuade existing customers to spend more per visit and to increase the overall customer base.

G. SWOT ANALYSIS OF THE BUSINESS MODEL

Bayantel PCOs are meeting an important need from MSEs for basic telecommunications services and MSEs are generally satisfied with their services. Despite being a relatively recent entrant in the PCO market, Bayantel PCOs are profitable and gaining market share. However, Bayantel PCOs face threats from substitute products and competing providers.

Strengths:

- **Demand-led:** PCO services are chosen according to market demand. New products are tested in the market. The company pays as close attention to service features that consumers want as the services themselves. The current structure allows standardization of services with flexibility for managers to meet variances in local demand through variations in service and office features.
- **Rationalization:** Bayantel is in the process of rationalizing the criteria for opening a new office or approving a franchise. This increased attention to market feasibility of PCOs has increased profits (but may reduce services in lower density, more remote areas).
- **Professionalism:** Over the last several years, Bayantel has upgraded its offices, improved internal systems, increased personnel pay and benefits and improved recruitment and human resource development. This focus has enabled Bayantel to increase volume cost effectively and improve the capacity to meet local variances in demand.
- **Emphasis on Profits:** Bayantel has reduced redundancy in operations across the company and lowered personnel costs. The importance of a focus on profit has successfully been transmitted throughout the company and is reinforced through pay incentives.
- **Wide Outreach:** Bayantel has reached a high volume of transactions through a national network of both company owned and franchised offices. The high volume maximizes economies of scale in the development of systems, national marketing and technology development.

Weaknesses

- **Lack of Outreach in Remote Areas:** Bayantel's focus on office upgrading and a minimum standard look have increased the costs of opening an office, eliminating some lower income and lower population density areas from eligibility. Bayantel lacks a lower cost business model that would be more appropriate in lower volume areas, where good returns are possible.
- **Selected Service Features:** Consumer research shows that Bayantel needs to improve accuracy, confidentiality, privacy and comfort while using services in its offices.

Opportunities

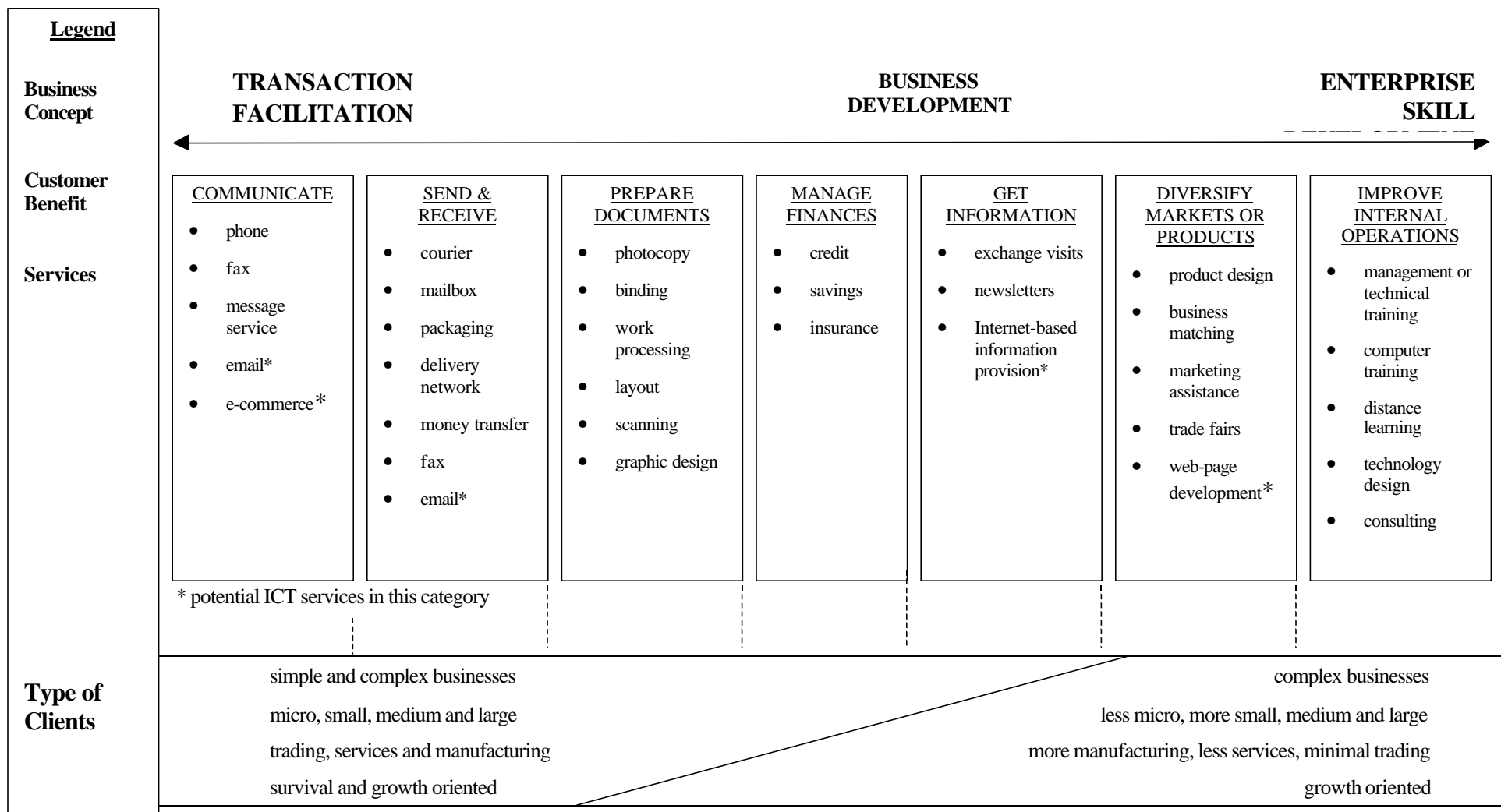
- **Diversification in ICT Business Services:** Bayantel has an established reputation, customer base and functional systems for providing services which facilitate business transactions of its business customers. New developments in ICT open the potential for adding new services which offer customers the same benefits; these services include email and e-commerce. These services could be added without significant incremental investment using the technology network Bayantel has already established. As more medium and large businesses begin to use these technologies, smaller businesses which interact with larger suppliers and buyers will increasingly demand access to these services also.
- **Adding Other Low-End Services:** Bayantel could increase its revenue per customer by adding other services which appeal to its current customer base. For example, Bayantel could retail inexpensive consumer goods which catch the eye of the many walk-in customers.

Threats

- **Substitute Products:** Owning personal ICT equipment, including telephones, cellular phones, fax machines and computers, is rapidly getting cheaper. The government mandated roll out of landlines will encroach on Bayantel's customer base. Over ninety percent of MSEs who do not have a landline yet said that they would use PCOs less or not at all if they were able to get a landline.

- **Payphones and Payphone Businesses:** The most feasible alternative to PCOs are payphones which local exchange carriers are putting up as part of their government mandated landline quota. The local phone company in Southern Mindanao plans to encourage local retail stores to build a business around payphones by attaching a fax machine to the payphone and offering other complementary services. This lower cost business model will challenge PCOs, particularly in more remote areas.

APPENDIX 1
FIGURE 1: DEFINING BUSINESS DEVELOPMENT SERVICES BY CUSTOMER BENEFIT



APPENDIX 2

Chart 1: Summary Comparison of Two Business Models for BDS

Component	Bayantel PCOs - Transaction Facilitation	Laguna SeCen - Business and Enterprise Skill Development
MSE Customer Benefit	<ul style="list-style-type: none"> ▪ save time and money on day to day business transactions ▪ immediate benefits ▪ low value adding 	<ul style="list-style-type: none"> ▪ grow and develop businesses ▪ long term benefits ▪ high value adding
Customers	<ul style="list-style-type: none"> ▪ broad-based ▪ low-end customers ▪ 70% personal/30% business ▪ MSEs are majority traders 	<ul style="list-style-type: none"> ▪ businesses exclusively ▪ 50+% SMEs, remainder larger businesses ▪ mainly manufacturers
Service Type	<ul style="list-style-type: none"> ▪ standardized 	<ul style="list-style-type: none"> ▪ business specific ▪ customized for groups of business clients (e.g. subsector specific)
Current Services	<ul style="list-style-type: none"> ▪ phone ▪ fax ▪ telegram ▪ money transfer 	<ul style="list-style-type: none"> ▪ training ▪ marketing assistance ▪ financial assistance ▪ business support (including transaction facilitation)
Recommended Change in Services	<ul style="list-style-type: none"> ▪ add email ▪ add e-commerce 	<ul style="list-style-type: none"> ▪ drop transaction facilitation ▪ change to referral to financial services ▪ add information provision and exchange visits
Market Type	<ul style="list-style-type: none"> ▪ area based with broad outreach ▪ high volume ▪ low margin ▪ low unit price 	<ul style="list-style-type: none"> ▪ niche ▪ low volume ▪ high margin ▪ high unit price
Market Building Strategy	<ul style="list-style-type: none"> ▪ increasing general awareness of service availability ▪ quality and emphasis on benefits of services to induce trial ▪ quality to build retention 	<ul style="list-style-type: none"> ▪ increasing target clients awareness of service benefits ▪ subsidy to induce trial ▪ building clients' businesses to increase capacity to pay for services to build retention
Ownership Structure	<ul style="list-style-type: none"> ▪ corporate/private sector ▪ franchised network 	<ul style="list-style-type: none"> ▪ not for profit association ▪ membership based
Financial Sustainability Issues	<ul style="list-style-type: none"> ▪ broad outreach is key ▪ expect profits within one year 	<ul style="list-style-type: none"> ▪ increasing demand from specific client group is key ▪ several year investment needed in development of customer base and services
Internal Capacity Needed	<ul style="list-style-type: none"> ▪ strong systems for high volume ▪ keeping costs very low ▪ local variance in features ▪ equipment is important ▪ low-skill staff for service delivery ▪ broad outreach in marketing 	<ul style="list-style-type: none"> ▪ rapid adaptability to changing needs of relatively small client base ▪ showing value of services to customers ▪ knowledge is important ▪ high skill staff (or resource persons) for service delivery ▪ niche marketing to specific business customers

APPENDIX 3 LIST OF ACRONYMS

BDS	Business Development Services
ICT	Information and Communication Technology
LCCI	Laguna Chamber of Commerce and Industry
MSE	Micro and Small Enterprises
PCO	Public Calling Office
PilTel	Philippine Telephone Company
PLDT	Philippine Long Distance Telephone Company
PT&T	Philippine Telephone and Telegraph Company
RCPI	Radio Communications of the Philippines, Inc.
SeCen	Service Center (referring to the Laguna Small and Medium Enterprise Service Center)
SME	Small and Medium Enterprises